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# Pensions & Investments

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## AT DEADLINE

### PBGC acts on Munsingwear

The PBGC has taken over three Munsingwear pension plans after U.S. Bankruptcy Court said the company would be unable to reorganize unless the plans were terminated.

The three plans had $17 million in assets and $23 million in liabilities. The agreement provides the PBGC with stock in the reorganized company and other assets totaling $2 million, which a PBGC spokeswoman described as a "fair settlement" considering the average recovery is 14 cents on the dollar.

### Hitachi taps foreign firms

Hitachi Ltd., Tokyo, has hired INVESCO MIM International Ltd. and Warburg Asset Management Japan Ltd. to oversee about $3.1 million or 730 million yen each in global balanced accounts.

### Underwriting surges

Buoyed by growth in mortgage-backed securities and common stock offerings, the dollar volume of U.S. corporate new issue underwriting surged 60.1% during the first half of 1992, according to IDD.

The number of issues completed is up 18.7% compared with 1991's first half. Of the total $435.6 billion, $201.6 billion was in mortgage-backed securities, nearly double the year-earlier $109.9 billion.

Common stock underwritings reached $41 billion in the first half, a 57.7% increase from 1991's first half.

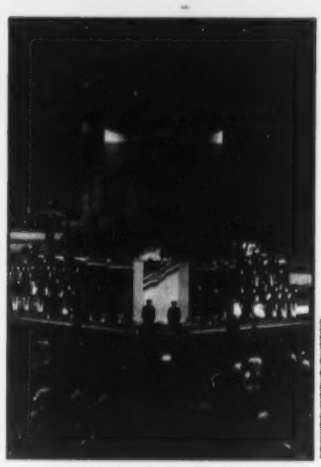
*Continued on page 41*

## INSIDE

KRISTIN CALLAHAN

### Ice-T enrages police

Police groups around the country are contemplating action against Time Warner because of its distribution and support of a song by rapper Ice-T that describes violence against law officers. Page 2.



AP WIDE WORLD PHOTOS

**Pension fund investments aren't on the agenda for the 1992 Democratic convention.**

# Democrats ignoring fund issues

**By Anne Schwimmer**

NEW YORK — Pension funds and their more than $3 trillion in assets will receive scant attention from a Democratic Party busy with broader public policy issues as it readies for its convention here next week.

**Presidential candidates and pension funds: Page 3**

"We don't have a precise policy" on using pension assets for economically targeted investing, said Gene Sperling, economic policy adviser to Arkansas Gov. Bill Clinton, the likely Democratic nominee. He added: "Up to this point, we have not had any specific new proposals" in regard to retirement savings policy or a preference for defined benefit or defined contribution plans.

According to the 1992 Democratic platform, the party "will encourage the flow of investment to inner city development and housing, through targeting enterprise zones and incentives for private and public pension funds to invest in urban and rural projects."

This differs from the 1988 campaign, when the Rev. Jesse Jackson espoused an economically targeted and federally mandated pension lending policy when he ran for president.

Gov. Clinton and his advisers — the main drafters of this year's Democratic platform — are concerned about offering a plan that would provide federal guarantees for pension loans to federal and state projects. They believe this might lead to a crisis similar to the savings and loan disaster — estimated to cost taxpayers $500 billion — if the investments go

*See* **Platform** *on page 43*

# Pension bills rushed

## Vets' retroactive 401(k) benefits likely

**By Hillary Durgin**

WASHINGTON — Companies were pushed one step closer to making mandatory retroactive 401(k) plan contributions for returning military veterans under legislation passed by the House of Representatives late last week.

The provision was one of a half-dozen pension-related proposals being considered as lawmakers rushed toward recessing for the July Fourth holiday.

The legislation — part of a broad tax package featuring urban aid — would amend the tax code to permit employers to make the mandatory makeup contributions without violating current law. The retroactive 401(k) plan contribution was included in a veterans benefits bill passed by the House of Representatives last year and expected to pass the Senate this year.

By removing the tax code hurdles, the bill would help pave the way for corporate and government employers to make retroactive payments to most defined contribution plans.

Other pension-related proposals in Congress included:

- A controversial provision to cap the corporate deduction on executive pay at $1 million was dropped from legislation to extend unemployment benefits. The remaining legislation was expected to be passed late last week.
- Retained in the unemployment bill was a proposal to significantly change the rules governing lump-sum distributions of pension assets to departing employees. The proposal would greatly ease rollovers but add to employers' administrative headaches as well as instituting a new 20% withholding tax on distributions retained by the employee.
- Far-reaching bankruptcy reform legislation, which the Senate recently passed, would strengthen the position of the Pension Benefit Guaranty Corp. in bankruptcy proceedings. The PBGC is seeking support for more comprehensive, separate legislation that would include changes in pension funding rules. Also included in the bankruptcy bill is a provision that would require retiree health benefits must be paid along with wages and other bankruptcy costs during bankruptcy proceedings.
- Senate action on an amendment to the Comprehensive National Energy Act that includes provisions to tax coal companies to pay for mineworkers' retiree

*See* **Congress** *on page 42*

AP WIDE WORLD PHOTOS

**Rep. Dan Rostenkowski is pushing legislation that would help pave the way for retroactive retirement and health benefits for veterans.**

# USAir clear of TWA liabilities

## PBGC monitoring sale negotiations

**By Fred Williams**

The possible sale of key Trans World Airlines Inc. assets to USAir Group Inc. probably would not include any of the unfunded pension or retiree medical liabilities of TWA, a circumstance that could spell problems for TWA's retirees and for the Pension Benefit Guaranty Corp.

In fact, to cut its own employee benefit costs, USAir has frozen its non-contract defined benefit plans and will institute a new defined contribution plan at the beginning of next year.

Financially troubled TWA has acknowledged discussions of a sale of assets to USAir, the nation's fifth largest airline, but a definite agreement has not been reached.

TWA, Mount Kisco, N.Y., filed for bankruptcy protection in January and has captured the attention of the PBGC, which has expressed concerns that TWA Chairman Carl Icahn might try to dump the airline's estimated $1.1 billion in unfunded pension liabilities on the agency (*Pensions & Investments*, Feb. 17).

The PBGC has been negotiating with TWA to provide adequate protections for its plans, such as using certain assets as collateral.

A PBGC spokesman said the agency has been closely monitoring the reported discussions between TWA and USAir regarding potential asset sales and is "concerned that such a transaction not be a subterfuge to avoid TWA's pension liabilities."

He said the agency "will take all necessary action" to protect the pension promises for TWA workers. He said the PBGC intends to ensure that Mr. Icahn's organization remains liable for TWA's pension liabilities regardless of whether assets are sold to USAir.

The PBGC in April asked the U.S. District Court in Kansas City, Mo., to declare constitutional legislation that holds TWA subsidiaries and Mr. Icahn liable for TWA's estimated $1.1 billion pension underfunding as long as Mr. Icahn directs the airline's management and policies.

TWA and Mr. Icahn have asked for a change of venue on the hearing to a Delaware court.

Under the legislation, in the form of an amendment offered by

*See* **Airlines** *on page 41*

## NEWS DIGEST

TOM REED

**Jerome H. Powell, undersecretary of the Treasury, was a featured speaker at *Pensions & Investments'* Third Annual Investment Management Conference. Stories on pages 16 and 34.**

**A petition by LTV Steel** for authorization to cancel its labor agreement with the Steelworkers union might jeopardize its emergence from bankruptcy. Page 23.

**IBM Corp. may be** downsizing its work force, but it is "upsizing" its $5 billion defined contribution plan through the addition of investment options. Page 24.

**Cone Mills Corp.'s union employees** are claiming victory in their battle to reform the company's ESOP, but executives deny a new contract represents any major change in the company's stance. Page 27.

**It's feast or famine** for private market investors this year, and some big investors aren't sure they'll be able to get their desired fill of deals by year end. Page 30.

**Christina Seix resigned** as chairman and chief executive officer of MacKay-Shields Financial Corp. and has started her own investment management firm. Page 41.

SPECIAL REPORT: WORLD'S LARGEST FUNDS

**The *P&I*/InterSec Top 300** pension funds hold assets worth more than $2.7 trillion, an increase of 12.5% from last year's figure. Page 18.

INTERNATIONAL

**Britain's pension executives** expect new rules because of criticism of the investment management industry's self-regulatory group and resignation of its chairman in the wake of the Robert Maxwell scandal. Page 6.

**Making Swiss markets more** accessible to outside investors is one major goal of a new law that took effect this month. Page 38.

REAL ESTATE

**A few funds** are actively looking to invest hundreds of millions of dollars in a depressed real estate market most others are avoiding. Page 3.

## DEPARTMENTS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# Firm misses its targets

## Rosenberg Institutional clients defect over performance

**By Steve Hemmerick**

ORINDA, Calif. — Rosenberg Institutional Equity Management Inc. has lost 12 clients and $1.5 billion in the past 18 months.

Some remaining clients have RIEM on a watch list. They are giving the once-booming quantitative management firm about another year to meet what clients and consultants say is one of the most ambitious performance goals in the industry — a 4% alpha.

That means RIEM not only has to meet a typical benchmark like the Standard & Poor's 500 Stock Index, but also has to better that benchmark by 400 basis points at no additional risk.

Although RIEM's performance is only a little below the S&P 500, some clients said goodbye to RIEM quickly rather than continue to pay the firm's fees, sometimes as high as 85 basis points a year, said one pension consultant who didn't want to be identified. Clients are checking to see whether RIEM's investment process is still as effective as it once was, when it achieved alphas of 5% to 6% in a single calendar year.

But Barr Rosenberg, RIEM's founder and a one-time quantitative consultant, is telling his clients to hang on.

Mr. Rosenberg said RIEM's expert system can still make that 4% alpha goal over the longer term. He said he has full faith in the system, which he said is being thwarted only temporarily by an anomaly in the stock market that hasn't been seen since investors put money in the Nifty 50 in the 1960s.

Expert systems are computer programs that draw conclusions and make decisions similar to a human expert. RIEM's system buys and sells stocks and maintains a portfolio.

RIEM had been one of the fastest growing equity managers, cashing in on the trend among pension funds to hire quantitative managers. Between the beginning of 1987 and the end of 1990, RIEM's tax-exempt assets increased 432% to $5.5 billion, then to $6.1 billion at the end of 1991.

But money has flowed out almost as fast as it came in. RIEM lost eight clients last year, accounting for $1 billion, while gaining two that brought in $100 million, according to Marlis S. Fritz, a partner and director of marketing. So far in 1992, the firm has lost four clients and about $500 million in assets.

Clients who have dropped RIEM include the Aluminum Co. of America pension fund, the Tennessee Valley Authority Retirement System and the Minnesota State Board of Investment, according to sources.

Most of RIEM's 31-plus clients

*See* **RIEM** *on page 39*

# Police aiming at Time Warner

## 'Cop Killer' angers groups nationwide

**By Christine Philip**

Police associations and unions across the country, outraged by lyrics in the song "Cop Killer" by rap singer Ice-T and his group Body Count, are urging their pension boards to take action against Time Warner Inc., New York, unless it pulls the song from distribution and issues an apology.

Among actions taken or under consideration:

- Several New York City police officers' associations intend to ask the $7.5 billion Police Department Pension Fund to divest its Time Warner holdings. According to the city comptroller's office, the police fund held 151,040 shares worth $16.4 million as of June 26.
- The $700 million Dallas Police and Fire Pension Fund wrote to its equity managers, expressing concern about any adverse impact on the price of Time Warner stock from the controversy. The fund also has written to the chief executive officer and president of Time Warner.
- Sam Dianitto, president of the $4.6 billion Los Angeles Fire and Police Pension System, said he intends to encourage his board at its July meeting to write to Time Warner to insist the company cease distribution of "Cop Killer" in the greater Los Angeles area. The fund holds 24,160 shares of Time Warner stock.
- Lou Campione, a police officer and member of the $1.9 billion Philadelphia Municipal Board of Pensions, said he had asked the pension staff to research how much Time Warner stock was held by the fund. "We have to use whatever pressure we can apply to stop this action by Time Warner," he said. He added he would suggest writing a letter to Time Warner, stock divestiture and a prohibition on future purchases at the next board meeting.
- The board of the $1.9 billion Policemen's Annuity and Benefit Fund of the City of Chicago instructed all of its equity managers to avoid the purchase of Time Warner stock. The fund has no holdings now. "The board did not put a time frame on this prohibition, so it should be considered indefinite," said James B. Waters, executive director.

GLEN E. FRIEDMAN

**Ice-T's song has police around the country contemplating protests against Time Warner.**

*See* **Police** *on page 40*

# U.S. investors shake up Japan

**By Marlene Givant Star**

U.S. and British institutional investors stirred up the normally sedate Japanese proxy process by voting shares at hundreds of companies last month.

Results of the proxy voting were expected to be released July 6; the U.S. and British investors had focused their efforts on dividends, authorized capital and executive compensation.

Voting is no easy task in Japan. As is the custom, more than 1,000 meetings were held at exactly 10 a.m. June 26. The California Public Employees' Retirement System, Warburg Investment Management International Ltd., the pension fund of American Telephone & Telegraph Co., State Street Bank and Trust Co. and Wells Fargo Institutional Trust Co. were among 22 funds representing $11 billion in Japanese shares that voted through Global Proxy Services Inc., Lincoln, Mass.

Chase Manhattan Bank N.A. used its own internal mechanisms to vote proxies for its clients, while smaller global custodians such as Harris Trust & Savings Bank, used the translating services of Institutional Shareholder Services Inc., Washington, to help its clients vote. Although voting is by mail, there is only a two-week period in which to translate, circulate and return proxy voting materials to Japan, and local subcustodians appear loath to facilitate things.

In a country where virtually no one votes against management, foreign investor voting activity was picked up by Japanese newspapers and television. The action was well received by the media, which indicated in their coverage that foreign shareholders, acting through the corporate governance mechanism, might put pressure on companies to lift dividends and eventually help slow the market's free fall.

That's also the goal of Japanese insurance company investors, who are acting behind the scenes. While they are not majority holders of Japanese companies, life insurers exert a strong influence as lenders of last resort. As

*See* **Japan** *on page 41*

401(K) PLANS

## Firm stresses participant education

■ David Veeneman, former William M. Mercer legal counsel and asset consultant, has formed an independent investment consulting firm specializing in investment education for 401(k) plan participants.

"I've been thinking about doing this for some time," he said.

Called the STAR Workshop, the Louisville, Ky.-based company offers plan sponsors a way to educate employees about investment choices without giving investment advice, he said. It is a fully integrated, 24-month communications program designed to teach participants investment basics.

"Most participants aren't investors, they are savers. That means their No. 1 goal is to avoid taking risk. We will focus on strategies that participants can use to protect themselves from investment risk," he said.

The program is presented in personal meetings or video and is accompanied by a workbook and other supplementary materials.

Mr. Veeneman said his program is designed to be simple and is "understandable for employees at every level of investment sophistication. It is designed to guide employees through the process of making their investment choices without giving investment advice or recommending particular investments."

*— Fred Williams*

**David Veeneman says most 401(k) participants are savers, not investors.**

REAL ESTATE

## O&Y mess to hit pension investors

■ The financial troubles of Olympia & York Developments Ltd., Toronto, probably mean more troubles for pension fund real estate portfolios and for pension funds waiting to get out of those portfolios.

Consultants with Callan Associates Inc., San Francisco, said in a report that some investors likely will face increased difficulty in obtaining credit for real estate activities.

The capital shortage "can be expected to prolong the recovery of various real estate markets as transaction volume continues to be limited," the Callan report said.

According to many real estate advisers, they have trouble selling portfolio properties because buyers can't get the money to finance the purchases.

Few property sales as a result of even tighter credit means many pension funds in line to cash out of open- and closed-end funds can expect to a longer waiting period. For some funds, the wait to receive their money already is as much as two years, said the advisers.

*— Steve Hemmerick*

BANKS

## ABA gives nod to loan screen

■ To help banks protect themselves from environmental liability on loans, the American Bankers Association is endorsing an environmental pre-screening data base, offered by Vista Environmental Information Inc., San Diego, Calif.

Banks are provided with access to environmental profiles from more than 600 sources, including the Environmental Protection Agency and local and state agencies.

The data base can identify problems early in the loan approval process, an ABA press release said.

Vista can provide a profile summary of a specific address or company; an area profile according to zip code; and a radius report, detailing hazardous sites within one mile of a specific site.

Prices range from $75 to $295.

The Vista system was tested by 22 bankers nationwide for reliability and value, according to the ABA.

*— Christine Philip*

MONEY MANAGERS

## United Capital offers cash advice

■ United Capital Group's goal is to allow pension funds, corporations, government agencies and labor unions to benefit from the same sophisticated cash management techniques available on Wall Street.

Cash management is handled by United Capital's subsidiary, United Capital Cash Management Inc., a joint venture with New York-based Brenner Securities Corp.

Howard Brenner, a former president of Drexel Burnham Lambert Inc., is chairman of Brenner Securities.

Investment banks and broker/dealers long have earned higher yields on their cash by doing sophisticated swapping and trading in the money market, said Mr. Brenner. But none of these firms has offered these services to pension funds, corporations or government agencies.

Until now.

According to J.P. Mililli, president of United Capital Group, the process of enhancing cash yields begins by examining a client's cash needs.

"In most agencies, there is a short-term desk that rolls the money into overnights and seven-day (notes)," said Mr. Mililli. "But there is no analysis of the particular cash flow needs of the agency."

After the analysis, United Cash will "ladder a portfolio of securities" of different maturities, based on the client's cash needs, said Mr. Mililli.

"The farther out you go, the higher the yield you can receive," he said.

One way United Capital Cash enhances yields is through "specials," according to Mr. Mililli.

"In most days during the course of the year, someone is short various durations of Treasuries that they need to cover," he said. "If you are long (Treasuries), we can lend them.

"In return we would get cash. We would (then) take those funds and go into the repo market and invest those funds.

"We have raised yields significantly, anywhere between 50 to 200 basis points," Mr. Mililli said.

*— Terry Williams*

INVESTING

## Limited partnership acquires Easco

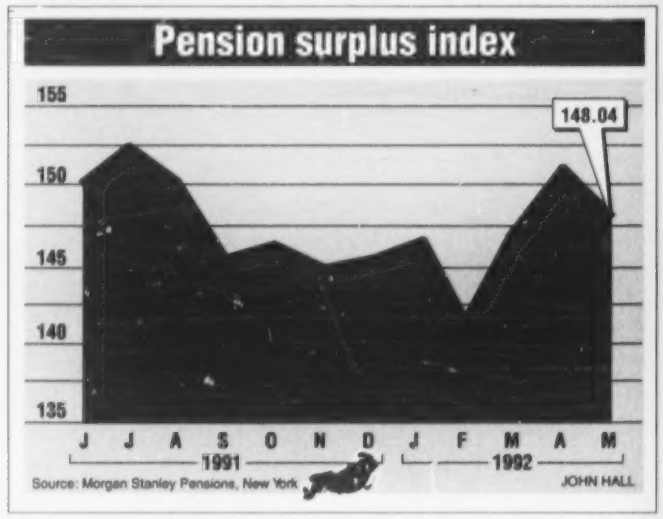
■ American Industrial Partners has acquired Easco Corp., Girard, Ohio, for more than $100 million. Easco is one of the largest independent makers of soft alloy aluminum products in the United States.

The limited partnership firm, which runs a $217 million fund for corporate and public pension funds, endowments, foundations and other institutions, privately placed $50 million in equity with the company.

It is the fund's second transaction since it was launched in May 1991.

American Industrial, New York, takes controlling equity stakes in companies where it sees room for operating improvements.

*— Marlene Givant Star*




MARKETS

## Study analyzes market reaction to economic shocks

■ "There is no such thing as an average shock."

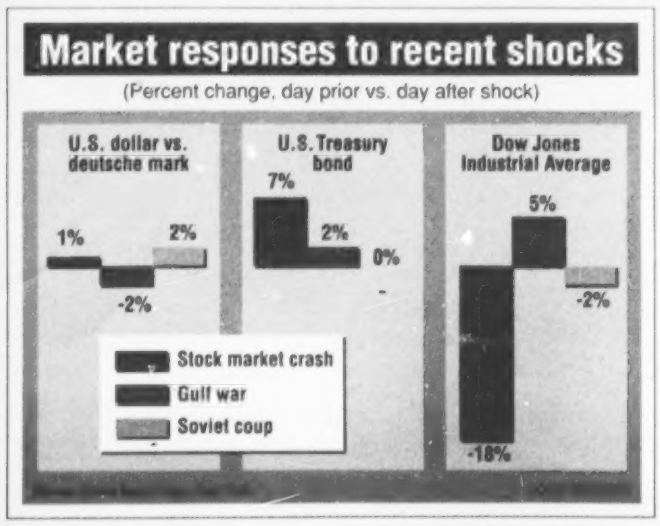
Swiss Bank Corp. drew that conclusion from a study measuring financial market responses to economic shocks. In reviewing data surrounding three recent shocks — the 1987 stock market crash, Operation Desert Storm and the unsuccessful Soviet coup — the study determined economic shocks are more likely than political shocks to redefine market trends.

Foreign exchange and precious metals markets are more likely to be affected by international shocks. And various markets within an economy respond to a given shock in different ways.

"In surveying market participants, we have found many traders tend to shun any technical analysis immediately following any unforeseen market movement," the study said. "Fundamental considerations then come to fore as a guide to future market developments.

"Understandably investors will have to be sure they consider the implications brought about by a particular incident before returning to a reliance on any previous trends."

*— Marlene Givant Star*




INTERNATIONAL

## Common Fund adds to portfolios

■ The Common Fund, Fairfield, Conn., with $6.5 billion under management for college endowment funds, launched a global equities fund and an emerging markets fund July 1.

"This is really a new step for many colleges after a number of years of international investment," said George F. Keane, president. "Global equities are the next evolutionary stage for endowments, which enables them to significantly broaden and diversify investment opportunities."

The fund will be managed by Baillie Gifford Overseas Ltd., Edinburgh, Scotland; Capital Guardian Trust Co., Los Angeles; Brinson Partners Inc., Chicago; and Lazard Freres Asset Management, New York. The portfolio initially will have a 30% weighting in the United States, 40% in European countries and 30% in Pacific Rim countries.

The emerging markets fund will target 20 countries, all with characteristics of a higher growth rate than established markets and attractive pricing compared to earnings. "In inefficient markets like these, managers can add a lot of value through good stock selection and country rotation," Mr. Keane said.

The fund will be managed by Strategic Investment Partners Inc., Washington; Capital Guardian Trust; and Genesis Asset Managers Ltd., London.

The fund will concentrate on countries in the Pacific Rim, South and Central America, Africa, the Middle East and some European countries, such as Greece and Turkey.

*— Christine Philip*

# Top 300 assets rise 12.5% to $2.7 trillion

## United States dominates *P&I*/InterSec fund rankings

By Lisa Schultz

The world's 300 largest pension funds hold assets worth more than $2.7 trillion — an increase of 12.5% from the $2.4 trillion reported last year.

The figures, from a survey by *Pensions & Investments* and InterSec Research Corp., Stamford, Conn., also show that assets of the largest 25 pension funds increased 11%, to $1.04 trillion from more than $937 billion a year earlier.

There were few major changes among the largest 10 funds. Assets of the Teachers Insurance and Annuity Association — College Retirement Equities Fund rose almost 20%, to $99.6 billion, putting the U.S. fund ahead of the Netherlands' Algemeen Burgerlijk Pensioenfonds, whose assets rose 6% to $99.4 billion.

Three of Japan's largest pension funds — National Government Employees, Local Public Service and Public School Teachers — ranked eighth, ninth and 10th, with $43 billion, $42 billion and $41 billion respectively. While the employees' and teachers' funds both ranked in the top 25 last year, the Local Public Service Fund made a huge leap from its 35th place rank.

Sweden's Allmanna Pensionsfonden (Boards 1, 2, 3) maintained its third-place standing, with $79.4 billion, up 11.8%.

Singapore's Central Provident Fund — the only fund from Singapore in the Top 300 — moved up one slot to 18th with $27.71 billion.

Sixteen of the top 25 funds are U.S. funds, holding $635 billion, or 61% of the assets of the top 25. That compares with the $535 billion 16 U.S. pension funds held a year earlier.

The survey shows sizable growth — 33% overall — in Canada's pension funds. Among the largest, the Ontario Teachers' Pension Plan increased 24% to $21.4 billion from $17.24 billion; the Ontario Municipal fund grew 18.3% to $12.72 billion from $19.75 billion; and the Superannuation Commission for the Province of British Columbia grew 11.4% to $12.32 billion from $11.06 billion. Several Canadian funds are new to the list.

The only U.K. funds in the top 25 ranked back-to-back at No. 22 and No. 23. British Coal Pension Funds, with assets of $24 billion, dropped from 16th, while the British Telecommunications Staff Superannuation Scheme increased its assets 13% to $23.67 billion, but still dropped in ranking from 21st.

Among the top 300 funds, the United States was represented most frequently, with 177 funds holding $1.6 trillion in assets. U.K. pension funds were the second most prominent, with 41 funds holding $279 billion.

Japan ranked third in assets but fifth in the number of funds, with $223 billion held by 15 funds. The Netherlands was fourth in assets, but third in number of funds, with $204 billion held by 19 funds. Canada was fifth in assets and fourth in funds, with $122 billion among 16 funds.

Following were: Sweden, $79.4 billion, all from one fund; Switzerland, $35.6 billion from 10 funds; Germany, $34.8 billion from eight funds; Denmark, $28.5 billion, four funds; Singapore, $27.7 billion, from one fund; Australia, $25.9 billion from five funds; Malaysia, $18.7 billion, from one fund; and France, with $6 billion from two funds.

The universe from which the rankings come includes most of the world's funded pension assets. However, not all countries require funds to report to any regulatory authority.

Japan's Pension Welfare Service was excluded this year because it is not a pension fund. Canada's Caisse de Depot was excluded because it is a manager, handling assets for the Quebec Pension Plan and other funds.

The U.S. fund data are taken from *P&I*'s annual Top 1,000 ranking and are as of Sept. 30 (*P&I*, Jan. 20). The Japanese fund data are provided by the Japan Bond Research Institute, Tokyo, and are as of the end of March 1992; the InterSec data are as of Dec. 31.

Growth rates should not be interpreted as reflecting investment expertise. Many pension funds are constrained in their investment policies. Some large funds in the Far East, Europe, and Canada hold a large proportion of their assets in non-marketable domestic government paper, whereas others are obliged to re-invest in the sponsoring industry.

While data was requested at market value, quite a few funds only prepare accounts at book value, or value different asset classes on different bases. ■

## P&I/InterSec World 300 (U.S. $ millions)

| | | | |
|---|---|---|---|
| 1. TIAA-CREF | U.S. | 99,600 |
| 2. ABP | Netherlands | 99,400 |
| 3. Allmanna (Boards 1,2,3) | Sweden | 79,390 |
| 4. California Employees | U.S. | 64,658 |
| 5. New York State & Local | U.S. | 50,081 |
| 6. New York City | U.S. | 48,876 |
| 7. AT&T | U.S. | 45,028 |
| 8. Nat'l Gov't Employees | Japan | 43,255 |
| 9. Local Public Service | Japan | 41,924 |
| 10. Public School Teachers | Japan | 41,368 |
| 11. General Motors | U.S. | 40,800 |
| 12. California Teachers | U.S. | 37,367 |
| 13. New York Teachers | U.S. | 32,514 |
| 14. New Jersey Investment | U.S. | 31,280 |
| 15. General Electric | U.S. | 31,078 |
| 16. Texas Teachers | U.S. | 29,477 |
| 17. IBM | U.S. | 29,000 |
| 18. Central Provident Fund | Singapore | 27,710 |
| 19. PGGM | Netherlands | 25,570 |
| 20. Florida State | U.S. | 25,517 |
| 21. Ohio Public Employees | U.S. | 24,272 |
| 22. British Coal | U.K. | 24,160 |
| 23. British Telecom | U.K. | 23,670 |
| 24. Wisconsin State Board | U.S. | 22,790 |
| 25. Ford Motor | U.S. | 22,700 |
| 26. North Carolina State | U.S. | 22,261 |
| 27. Ohio State Teachers | U.S. | 22,000 |
| 28. Ontario Teachers | Canada | 21,370 |
| 29. Du Pont | U.S. | 20,501 |
| 30. Quebec Pension Plan | Canada | 20,380 |
| 31. Michigan State | U.S. | 20,120 |
| 32. Pa. Public School | U.S. | 19,300 |
| 33. Employees Provident | Malaysia | 18,660 |
| 34. ATP | Denmark | 17,760 |
| 35. Electricity Supply | U.K. | 17,620 |
| 36. University of California | U.S. | 16,988 |
| 37. NYNEX | U.S. | 16,740 |
| 38. Washington State | U.S. | 15,640 |
| 39. Ameritech | U.S. | 15,600 |
| 40. Minnesota State Board | U.S. | 15,105 |
| 41. Post Office | U.K. | 14,990 |
| 42. GTE | U.S. | 14,976 |
| 43. Bell Atlantic | U.S. | 14,741 |
| 44. BellSouth | U.S. | 14,570 |
| 45. British Railways | U.K. | 14,050 |
| 46. Boeing | U.S. | 14,010 |
| 47. NTT Mutual Aid | Japan | 13,330 |
| 48. Virginia Retirement | U.S. | 13,300 |
| 49. Maryland State | U.S. | 13,200 |
| 50. Pension Fund Assoc. | Japan | 13,124 |
| 51. Private School Teachers | Japan | 12,881 |
| 52. Philips | Netherlands | 12,810 |
| 53. Ontario Municipal | Canada | 12,720 |
| 54. Pacific Telesis | U.S. | 12,594 |
| 55. Oregon Employes | U.S. | 12,536 |
| 56. Georgia Teachers | U.S. | 12,354 |
| 57. B.C. Superannuation | Canada | 12,320 |
| 58. Universities Super. | U.K. | 11,260 |
| 59. British Gas | U.K. | 11,240 |
| 60. Central St. Teamsters | U.S. | 11,163 |
| 61. Pa. State Employes | U.S. | 11,131 |
| 62. Agricultural Forest/Fish | Japan | 11,126 |
| 63. Los Angeles County | U.S. | 11,091 |
| 64. Colorado Employees | U.S. | 10,914 |
| 65. Prefectural Gov't | Japan | 10,891 |
| 66. Western Teamsters | U.S. | 10,825 |
| 67. Shell Pensions Trust | U.K. | 10,300 |
| 68. Fed. Retirement Thrift | U.S. | 10,198 |
| 69. Rockwell International | U.S. | 10,125 |
| 70. Tenn. Consolidated | U.S. | 10,077 |
| 71. Eastman Kodak | U.S. | 9,961 |
| 72. Alabama Retirement | U.S. | 9,920 |
| 73. Illinois Teachers | U.S. | 9,888 |
| 74. USX | U.S. | 9,850 |
| 75. United Nations | U.S. | 9,798 |
| 76. Barclays Bank | U.K. | 9,750 |
| 77. Imperial Chemicals | U.K. | 9,730 |
| 78. South Carolina | U.S. | 9,386 |
| 79. U S WEST | U.S. | 9,370 |
| 80. Connecticut State | U.S. | 9,360 |
| 81. United Technologies | U.S. | 9,212 |
| 82. Nat'l Police Personnel | Japan | 9,211 |
| 83. National Westminster | U.K. | 9,120 |
| 84. Southwestern Bell | U.S. | 9,093 |
| 85. Lockheed | U.S. | 9,052 |
| 86. NSW State Super. | Australia | 9,020 |
| 87. Exxon | U.S. | 8,919 |
| 88. Arizona State | U.S. | 8,850 |
| 89. British Petroleum | U.K. | 8,850 |
| 90. Shell Oil | U.S. | 8,783 |
| 91. Philip Morris | U.S. | 8,698 |
| 92. Sears, Roebuck | U.S. | 8,665 |
| 93. British Steel | U.K. | 8,520 |
| 94. Chevron | U.S. | 8,377 |
| 95. D.Bank/Bankiergewerbe | Germany | 8,340 |
| 96. Shell | Netherlands | 8,160 |
| 97. Hughes Aircraft | U.S. | 7,900 |
| 98. Ontario Public Service | Canada | 7,750 |
| 99. Texas Employees | U.S. | 7,683 |
| 100. Metaalnijverheid BPF | Netherlands | 7,610 |
| 101. Bouwnijverheid BPF | Netherlands | 7,440 |
| 102. General Dynamics | U.S. | 7,234 |
| 103. Procter & Gamble | U.S. | 7,105 |
| 104. Lloyds Bank | U.K. | 7,060 |
| 105. Allied-Signal | U.S. | 7,000 |
| 106. British Airways | U.K. | 6,960 |
| 107. McDonnell Douglas | U.S. | 6,800 |
| 108. Prudential Insurance | U.S. | 6,764 |
| 109. Westinghouse Electric | U.S. | 6,667 |
| 110. Mass. Teachers/Empl. | U.S. | 6,591 |
| 111. Tokyo-to Public Service | Japan | 6,395 |
| 112. Canadian Nat'l Railways | Canada | 6,230 |
| 113. Lonmodiagernes D'fond | Denmark | 6,200 |
| 114. Metaalindustrie BPF | Netherlands | 6,080 |
| 115. Iowa Public Employees | U.S. | 5,942 |
| 116. Neder. Spoorwegen | Netherlands | 5,880 |
| 117. Missouri Public Schools | U.S. | 5,861 |
| 118. Chrysler | U.S. | 5,834 |
| 119. Bayerische Arztevers. | Germany | 5,740 |
| 120. City of Zurich | Switzerland | 5,700 |
| 121. State Service Super. | Australia | 5,690 |
| 122. Federation/Cities Pers. | Japan | 5,682 |
| 123. Pacific Gas & Electric | U.S. | 5,600 |
| 124. Bell Canada | Canada | 5,580 |
| 125. UMWA | U.S. | 5,562 |
| 126. British Broadcasting | U.K. | 5,470 |
| 127. Mobil Oil | U.S. | 5,426 |
| 128. Mississippi Employees | U.S. | 5,420 |
| 129. Illinois Municipal | U.S. | 5,318 |
| 130. Hospitals of Ontario | Canada | 5,230 |
| 131. Super. Fund Inv't Trust | Australia | 5,230 |
| 132. Delta Air Lines | U.S. | 5,139 |
| 133. Alberta Public Sector | Canada | 5,020 |
| 134. Unisys | U.S. | 4,998 |
| 135. Midland Bank | U.K. | 4,960 |
| 136. Utah State | U.S. | 4,900 |
| 137. Amoco | U.S. | 4,825 |
| 138. Alaska Retirement | U.S. | 4,800 |
| 139. United Airlines | U.S. | 4,800 |
| 140. American Airlines | U.S. | 4,750 |
| 141. Ontario Hydro | Canada | 4,720 |
| 142. Unilever | U.K. | 4,710 |
| 143. General Electric | U.K. | 4,660 |
| 144. All Japan Mutual Credit | Japan | 4,634 |
| 145. Caterpillar | U.S. | 4,600 |
| 146. Dow Chemical | U.S. | 4,594 |
| 147. San Francisco City/Co. | U.S. | 4,586 |
| 148. Strathclyde Regional | U.K. | 4,580 |
| 149. Hawaii Employees | U.S. | 4,520 |
| 150. Kentucky Teachers | U.S. | 4,501 |
| 151. Monsanto | U.S. | 4,500 |
| 152. Bayer AG | Germany | 4,490 |
| 153. Greater Manchester Co. | U.K. | 4,490 |
| 154. SBB | Switzerland | 4,400 |
| 155. United Methodists | U.S. | 4,333 |
| 156. Prudential Assurance | U.K. | 4,310 |
| 157. Nat'l Elect. Contractors | U.S. | 4,308 |
| 158. Louisiana Teachers | U.S. | 4,292 |
| 159. Los Angeles Fire/Police | U.S. | 4,220 |
| 160. Illinois State Universities | U.S. | 4,210 |
| 161. Kansas Employees | U.S. | 4,207 |
| 162. Nevada Employees | U.S. | 4,169 |
| 163. Northrop | U.S. | 4,160 |
| 164. Georgia Employees | U.S. | 4,150 |
| 165. KLM | Netherlands | 4,150 |
| 166. Minnesota Mining/Mfg. | U.S. | 4,102 |
| 167. Grafische BPF | Netherlands | 4,090 |
| 168. State Farm Insurance | U.S. | 4,080 |
| 169. J.C. Penney | U.S. | 4,056 |
| 170. British Aerospace | U.K. | 4,040 |
| 171. Baugewerbe ZVK | Germany | 4,030 |
| 172. Atlantic Richfield | U.S. | 4,028 |
| 173. Detroit Retirement | U.S. | 4,010 |
| 174. Chicago Teachers | U.S. | 4,000 |
| 175. Southern Co. | U.S. | 3,982 |
| 176. World Bank | U.S. | 3,950 |
| 177. Kentucky Retirement | U.S. | 3,900 |
| 178. Migros | Switzerland | 3,900 |
| 179. Metropolitan Life | U.S. | 3,857 |
| 180. Consolidated Edison | U.S. | 3,850 |
| 181. Textron | U.S. | 3,846 |
| 182. Commonwealth Banking | Australia | 3,820 |
| 183. Ford Motor | U.K. | 3,820 |
| 184. Indiana Employees | U.S. | 3,802 |
| 185. CIBA-GEIGY | Switzerland | 3,800 |

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# Performance analysis enters overseas arena

By Anne Schwimmer

U.S. pension funds and their consultants are trying to develop tools to measure the sources of investment returns generated by international stock managers.

While pension executives have a selection of quantitative performance attribution tools for their domestic equity managers — from consultants such as BARRA Inc. and Wilshire Associates Inc. — the tools do not yet exist to measure active management contributions of their international stock managers.

"We need to have a better understanding of the sources of returns in international," said Stan Willie, director-trust investment management at U S WEST Inc., Englewood, Colo.

"Just like in performance attribution in U.S. investments, it's important to know where your returns come from," he said. U S WEST's $8 billion fund has 15% allocated to international equities.

"That's why it's a very important issue," he added. "It's a much tougher problem than in U.S. equities."

Said John Carroll, president of GTE Investment Management Corp: "It's something that needs more work, but the lack of the sophistication that we have in the domestic area I don't think will slow down interest in the international area." Mr. Carroll's organization manages GTE Corp.'s $13 billion in pension assets.

"It just gets terribly complicated," Mr. Carroll explained. "Portfolio attribution in a domestic portfolio is chess; this is multidimensional chess."

Essentially, funds want to know how much value their international equity money managers are adding. They want to understand how much of their return is coming from their own allocation decision in international and how much is derived from the money managers' decision processes and particular styles.

"We know how the stocks behave — stocks behave the same in every country. It's a matter of how the managers behave," said William F. Sharpe, chairman of William F. Sharpe Associates, a consulting firm in Los Altos, Calif., and Timken Professor Emeritus of Finance, Stanford University, Stanford, Calif.

For U.S. equities, it is common to break out a manager's performance by asset allocation, stock selection and market timing, for example. But for now, although the application of the U.S. method to international equities is hypothetically possible, no consultant has a standard model available.

That leaves pension fund executives and trustees effectively flying blind, with no clear idea what is generating their returns internationally.

After talking with consultants, Asea Brown Boveri Inc., Stamford, Conn., is attempting to create a model that will break out the sources of international returns. "The tools we've seen haven't been very robust," said Craig S. Scholl, manager-pension and thrift management at Asea Brown Boveri. "We haven't found tools from other people, so we're trying to develop some tools internally that would meet our needs."

The search for a quantitative model has been "at times frustrating, but I don't think we were too surprised" that consultants couldn't find one, Mr. Scholl said.

"We see every reason to look at analysis of equity management with similar conceptual frameworks, whether it's U.S. only, global or some collection of non-U.S. countries," he said.

ABB's $700 million fund has 15% allocated to international equities, 2.5 times the international allocation it had earlier this year. The allocation was increased as a result of an asset/liability study, Mr. Scholl said.

U S WEST, meanwhile, is collaborating with BARRA, Berkeley, Calif., to develop a model.

"We're mainly working in the analysis phase," U S WEST's Mr. Willie. "We're right in the process of working with BARRA. They need a lot of information — every security held by a manager."

GTE's John Carroll says international performance attribution needs refinement.

"It's unclear whether we'll get the kind of information we need," Mr. Willie said, explaining some of the fund's international managers are invested in pools of funds. That means "we need to know the securities that are in the other account," which is proving somewhat more difficult and time-consuming, he said.

At American Telephone & Telegraph Co., Berkeley Heights, N.J., Teri Goodale, investment director, is satisfied with the kind of information already available from the fund's consultant — The Frank Russell Co., Tacoma, Wash. — about its international returns.

"The manager style in international is not as defined, so, yes, it's not as easily broken out" compared to the United States, Ms. Goodale said. AT&T has its international managers' returns divided by country, stock, currency and asset allocation, which she believes is enough.

"Typically managers have a style (that) is much more important in where they place in horse races," said Mr. Sharpe. He noted it's "very new" and "very early" for these domestic equity tools to be applied internationally.

"It's just beginning to be understood in France, Switzerland, Japan, that again the same factors turn out to be very important," Mr. Sharpe said.

"What I expect to see is this kind of analysis take off in other countries," he said.

Mr. Sharpe added that in some countries, like Japan, manager styles can be substantially different from those common in the United States. U.S. managers typically split on value/growth or small-cap/large-cap lines. In Japan, industry sectors can take precedence.

"The stocks behave similarly," Mr. Sharpe explained. "The difference is that, until recently, managers in Japan tended to specialize in the sectors."

"I call it a natural evolution," said John Meier, a senior consultant at BARRA. "There just are not as many tools out there to look at this in a sophisticated way. The innovators, the most sophisticated pension funds, are going to want to take what they do on the U.S. side and apply it to their international managers."

The BARRA product, still in the initial stage, will supply a "full-factor based international performance attribution," Mr. Meier said. The model will examine money managers' asset allocation as well as their stock selection within each market. In studying the allocation decision, BARRA will examine country and currency selection, as well as how well the manager actively managed the currency risk. As for stock selection, BARRA intends to review "beta policy, risk index or style bets," plus the actual stocks the manager picked, Mr. Meier explained.

At BARRA, U.S. equity returns are sliced into 68 different pieces: 13 risk index factors (such as variability in markets, capitalization size and trading activity), and 55 industries (such as aluminum, international oil, beverages and publishing). BARRA also separates out the money managers' beta policy and specific asset selections.

The firm would like to establish similarly rigorous tests for international investment performance attribution.

At Wilshire Associates, Santa Monica, Calif., domestic equity performance is divided into five categories: style, timing, sector weighting, stock selection and trading.

Wilshire divides international equity returns into seven categories: timing, currency hedging, currency selection, country market selection, sector selection, stock selection and trading.

Mr. Meier said the managers, like their clients, seem to want a way to better measure their performance.

"A lot of them are actually looking to do this also," he said. "In many cases they may not be fully aware, they may want an independent confirmation of their style — what's working, what's not working." ■

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| | | | |
|---|---|---|---|
| 186. | Hoechst AG | Germany | 3,800 |
| 187. | UNIRS | France | 3,800 |
| 188. | Xerox | U.S. | 3,780 |
| 189. | TSB Group | U.K. | 3,770 |
| 190. | RJR Nabisco | U.S. | 3,737 |
| 191. | Ohio Police & Firemen | U.S. | 3,717 |
| 192. | International Paper | U.S. | 3,713 |
| 193. | ALCOA | U.S. | 3,679 |
| 194. | IBM Deutschland | Germany | 3,670 |
| 195. | Grumman | U.S. | 3,650 |
| 196. | Martin Marietta | U.S. | 3,644 |
| 197. | Raytheon | U.S. | 3,633 |
| 198. | Canton of Zurich | Switzerland | 3,600 |
| 199. | Merchant Navy | U.K. | 3,590 |
| 200. | West Midlands Met. | U.K. | 3,580 |
| 201. | Lucas Industries | U.K. | 3,560 |
| 202. | Illinois State Board | U.S. | 3,503 |
| 203. | Tenn. Valley Authority | U.S. | 3,483 |
| 204. | London Reg. Transport | U.K. | 3,450 |
| 205. | W. Yorkshire Super. | U.K. | 3,410 |
| 206. | ITT | U.S. | 3,409 |
| 207. | Texaco | U.S. | 3,400 |
| 208. | Coop Schweiz | Switzerland | 3,400 |
| 209. | Ohio School Employees | U.S. | 3,371 |
| 210. | Quebec Construction | Canada | 3,370 |
| 211. | Hydro Quebec | Canada | 3,350 |
| 212. | Bethlehem Steel | U.S. | 3,325 |
| 213. | Tenneco | U.S. | 3,314 |
| 214. | TRW | U.S. | 3,313 |
| 215. | Imperial Group | U.K. | 3,290 |
| 216. | Eli Lilly | U.S. | 3,207 |
| 217. | City of Lausanne | Switzerland | 3,200 |
| 218. | Massachusetts PRIM | U.S. | 3,200 |
| 219. | Union Carbide | U.S. | 3,174 |
| 220. | S. Baptist Convention | U.S. | 3,149 |
| 221. | Hitachi | Japan | 3,126 |
| 222. | Aetna | U.S. | 3,107 |
| 223. | SSIH | Switzerland | 3,100 |
| 224. | Los Angeles City | U.S. | 3,095 |
| 225. | Deere & Co. | U.S. | 3,069 |
| 226. | Matsushita Electric | Japan | 3,034 |
| 227. | Canadian Pacific | Canada | 3,030 |
| 228. | London Pension Funds | U.K. | 3,000 |
| 229. | Rover Group Holdings | U.K. | 3,000 |
| 230. | Hoogovens | Netherlands | 2,930 |
| 231. | IBM U.K. | U.K. | 2,920 |
| 232. | Onderling BPF | Netherlands | 2,880 |
| 233. | Honeywell | U.S. | 2,855 |
| 234. | Boilermaker/Blacksmith | U.S. | 2,834 |
| 235. | S. California Edison | U.S. | 2,820 |
| 236. | Rhode Island | U.S. | 2,788 |
| 237. | Kaiser Permanente | U.S. | 2,775 |
| 238. | Sun Alliance Insurance | U.K. | 2,740 |
| 239. | Arkansas Teachers | U.S. | 2,726 |
| 240. | Texas Municipal | U.S. | 2,710 |
| 241. | Unilever | Netherlands | 2,710 |
| 242. | Presbyterian Church | U.S. | 2,700 |
| 243. | Toshiba | Japan | 2,689 |
| 244. | Abbott Laboratories | U.S. | 2,681 |
| 245. | Halliburton | U.S. | 2,667 |
| 246. | Louisiana State | U.S. | 2,663 |
| 247. | Phillips Petroleum | U.S. | 2,661 |
| 248. | Rolls-Royce | U.K. | 2,660 |
| 249. | Owens-Illinois | U.S. | 2,650 |
| 250. | PTT Nederland | Netherlands | 2,650 |
| 251. | USAir | U.S. | 2,636 |
| 252. | BASF | Germany | 2,590 |
| 253. | Op. Eng./Central Fund | U.S. | 2,570 |
| 254. | Trans World Airlines | U.S. | 2,561 |
| 255. | United Parcel Service | U.S. | 2,534 |
| 256. | Allied-Lyons | U.K. | 2,510 |
| 257. | Texas Co./District | U.S. | 2,509 |
| 258. | Nat'l Rural Elect. Co-op | U.S. | 2,497 |
| 259. | Motorola | U.S. | 2,492 |
| 260. | Bristol-Myers Squibb | U.S. | 2,479 |
| 261. | Citibank | U.S. | 2,477 |
| 262. | Bakery/Confect. Union | U.S. | 2,468 |
| 263. | STC | U.K. | 2,430 |
| 264. | New Mex. Educational | U.S. | 2,426 |
| 265. | Air Canada | Canada | 2,410 |
| 266. | BP America | U.S. | 2,400 |
| 267. | BTR | U.K. | 2,390 |
| 268. | New Mexico Employees | U.S. | 2,386 |
| 269. | Commonwealth Edison | U.S. | 2,379 |
| 270. | PPG Industries | U.S. | 2,362 |
| 271. | DSM | Netherlands | 2,350 |
| 272. | Met. Borough of Wirral | U.K. | 2,350 |
| 273. | Oklahoma Teachers | U.S. | 2,348 |
| 274. | Koopvaardij BPF | Netherlands | 2,340 |
| 275. | Mijnwerkers (Limburg) | Netherlands | 2,340 |
| 276. | Laegernes | Denmark | 2,320 |
| 277. | Maine Retirement | U.S. | 2,311 |
| 278. | Central Electricity Cos. | Switzerland | 2,300 |
| 279. | UFCW-S. California | U.S. | 2,288 |
| 280. | Sygehjaelpere mfl | Denmark | 2,280 |
| 281. | American Stores | U.S. | 2,276 |
| 282. | Indiana Teachers | U.S. | 2,275 |
| 283. | Civil Aviation Authority | U.K. | 2,250 |
| 284. | General Motors/Canada | Canada | 2,250 |
| 285. | Nova Scotia Public Svc. | Canada | 2,250 |
| 286. | Hosp./Healthcare Empl. | U.S. | 2,249 |
| 287. | Travelers | U.S. | 2,237 |
| 288. | CIGNA | U.S. | 2,236 |
| 289. | C.R.P.N.C.P. | France | 2,230 |
| 290. | FPL Group | U.S. | 2,227 |
| 291. | Evangelical Lutheran | U.S. | 2,223 |
| 292. | Chicago Municipal | U.S. | 2,220 |
| 293. | Akzo | Netherlands | 2,210 |
| 294. | Allianz Versicherungs | Germany | 2,210 |
| 295. | Canton of Vaud | Switzerland | 2,200 |
| 296. | Huisartsen BPF | Netherlands | 2,190 |
| 297. | L.A. Water/Power | U.S. | 2,165 |
| 298. | ICMA Retirement | U.S. | 2,160 |
| 299. | Navistar | U.S. | 2,159 |
| 300. | State Super./Victoria | Australia | 2,140 |